DOW THEORY LETTERS INC.

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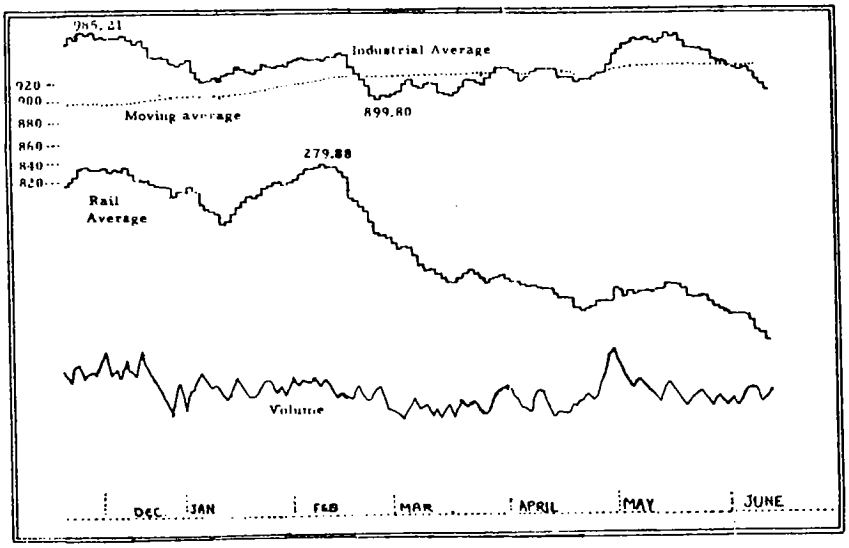
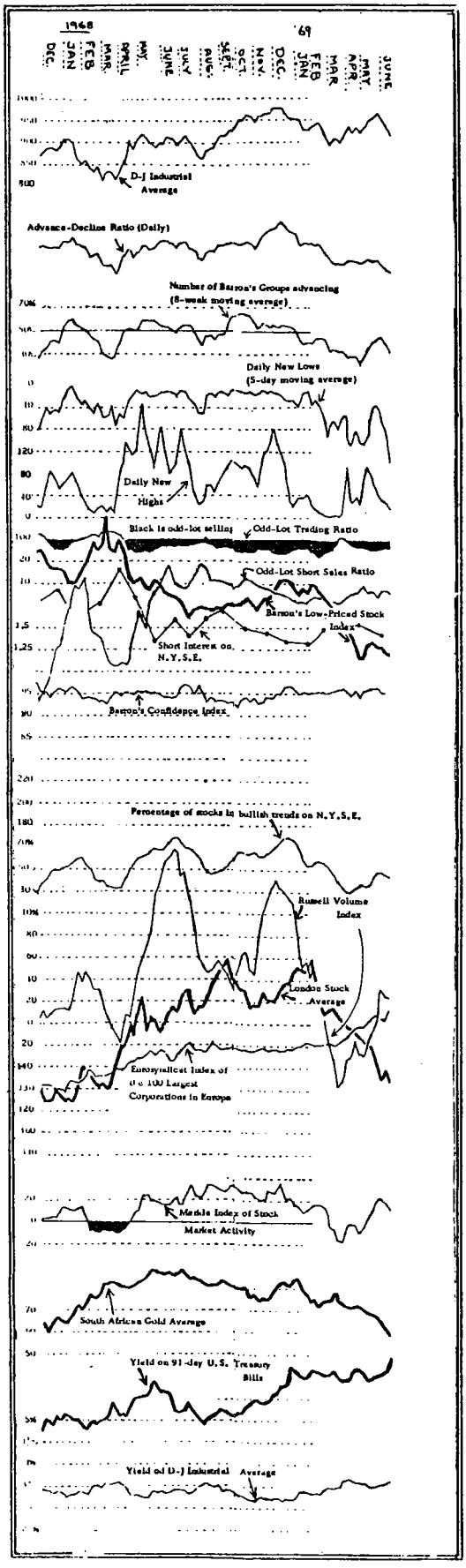
THE MARKET: The only word for the market over the past two weeks is "heavy." In a later section of this Letter I examine eight different indicators, and it is noticeable that the Rails, Utilities, the Advance-Decline Ratio, the 40-Bond Average and the three bullish percentage indicators are dragging the entire market structure down.

The 1969 rally progressed from a low for the year of 899.80 on the Dow to a May peak of 968.85, a distance of 69.05 points. The halfway level of the rally was 934.32. That halfway or 50% level was cracked on the downside on June 2. On the same day the Dow Industrials also broke below their 30-week moving average which now stands at approximately 933. Thus, the whole 1969 structure for the stock market has been placed in jeopardy.

As far as I am concerned, however, a market should be given every chance to prove itself, particularly when that proof may be in opposition to one's own considered opinion. In other words, if I am bullish I want to give the bears every chance to show me that I am wrong. Since I am now bearish on the primary trend I will pick the point which I consider to be the best argument for the bulls. This is the 899.80 point or the 1969 low for the Dow Industrials. As long as the Industrial Average holds above that point (see page 1 chart) it appears to me that the bulls have a talking point. Regardless of new lows in Rails, Utilities, Bonds and the Advance-Decline Ratio, the bulls can point to the fact that the Industrails have not confirmed, they have not broken to 1969 lows (below 899.80). This, to me, is the best single bull argument today.

I will go on record as saying that I think the 899.80 level for the Dow is critical. As long as Industrials hold above 899.80, the market structure may be tattered, but it will still be intact. If, on the other hand, the Industrials break below 899.80 (particularly on increasing volume) I would say that the technical structure of this market has been shattered. I would have no preconceived notions regarding what to expect if 899.80 is penetrated. A breaking of 899.80 would mean that the entire move from the December, 1968 Dow peak of 988.21 to the 1969 low of 899.80




1968
'69
DJ Industrial Average
Advance-Decline Ratio (Daily)
Number of Barron's Groups advancing (8-week moving average)
Daily New Lows (5-day moving average)
Daily New Highs
Black is odd-lot selling
Odd-Lot Trading Ratio
Odd-Lot Short Sales Ratio
Barron's Low-Priced Stock Index
Short Interest on N.Y.S.E.
Barron's Confidence Index
Percentage of stocks in bullish trends on N.Y.S.E.
Russell Volume Index
London Stock Average
Eurosyndicat Index of the 100 Largest Corporations in Europe
Merkle Index of Stock Market Activity
South African Gold Average
Yield on 91-day U.S. Treasury Bills
Yield on D-J Industrial Average

 to the 1969 peak of 968.85 back through the 1969 low of 899.80 constituted a giant downward zig-zag. Such structures are obviously bearish in character, particularly when occurring within the framework of a primary bear market.

I call particular attention to the fact that the Dow short interest ratio has held below the critical 1.0 level for 16 out of the past 17 months, and that in April this important indicator was at an extremely low .59 (see Letter 429). This means to me that the technical underpinnings of the Dow are weak, very weak. It suggests that if the Industrial Average does penetrate 899.80 it could go a long way down before it exhausts its bearish potential.

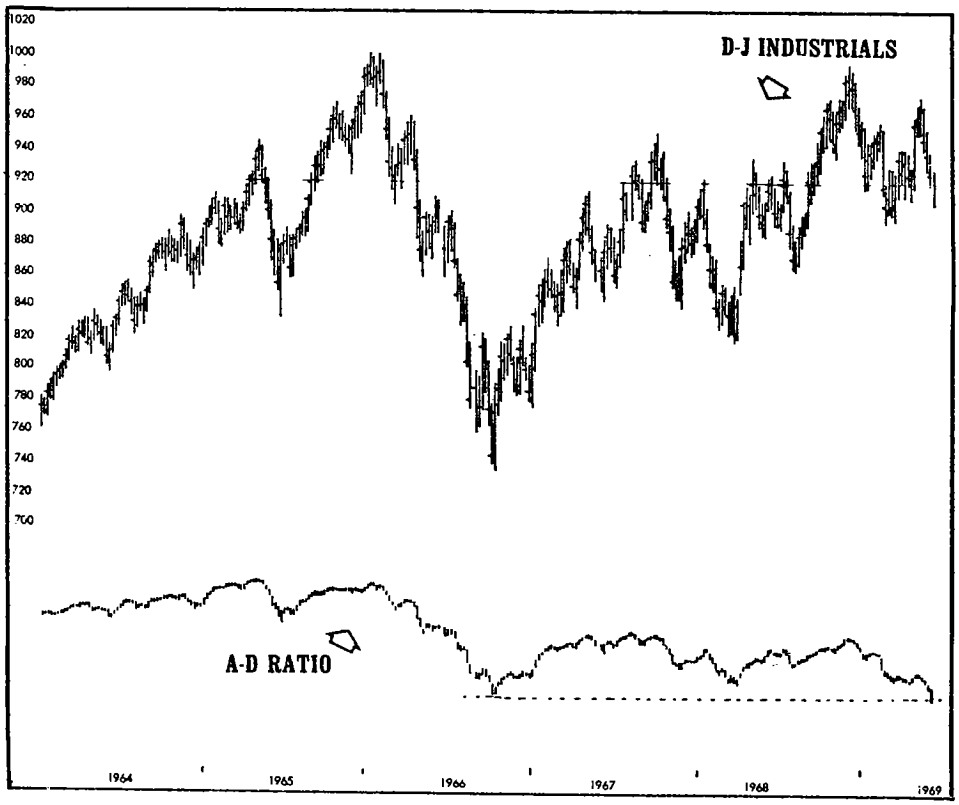
I also feel that this market is dangerous from an entirely different standpoint, one which is not technical but psychological. I have never seen a time when so many people have held so many shares of stock on a totally speculative basis. This is the "greater fool" theory. The "greater fool" theory runs as follows: "It's not worth its current market price, but I can always sell it to some bigger fool for more than I paid for it." The greater fool theory is king of this market. On the basis of this theory, hundreds of issues on the N.Y.S.E. and the Amex have been run up to absurd prices, absurd on the basis of current earnings, performance, potential and past record.

That is one thing which makes this market so dangerous. The greater fool theorists are going to panic when this market heads down in earnest. They are not going to find buyers for their wares at anything like current prices, and for many of the more ridiculously priced issues they may not find buyers at all.

When a wildly inflationary, euphoric mass psychology turns bearish then the bubble bursts. People wonder why they bought their declining stocks in the first place, and if the reasons don't hold up—panic may result. It's like a man who becomes totally enamoured of a second-hand sports car, and he pays far more than he should for it. He bought it in a manic state, he wasn't thinking, he only knew that he wanted it (greed). Then he finds that the car he paid $4000 for is a dud, the transmission is shot and the engine is in poor shape. He becomes totally disillusioned. He can't wait to get rid of the car. He misjudged the value of the thing, and suddenly he comes face to face with reality. He was an idiot; he paid $4000 for a pile of junk in new paint. He doesn't want to look at the car any longer, because it reminds him of his moment of madness. The realization of his mistake causes him to panic. He wants to get rid of the car at any price—with the same urgency he felt when he bought it at any price.

That, unfortunately, is what happens in the stock market when frenzied buyers find that they are holding "junk" in a falling market. They realize that they had no real reason to buy the stocks in the first place other than they were "supposed to go up." If that pathetic idea was indeed a reason, it doesn't exist anymore, and the only instinct is an animal-urge to save oneself. Get out at any price. And the panic is on. Remember, to have insanity on the downside, a pre-condition is to have insanity on the upside. That's the way it is on Wall Street--and elsewhere.

BREADTH CRACKS: On Monday, June 9, the Advance-Decline line (A-D) broke below its 1966 or bear market low. This is an important break, implying as it does, that the majority of stocks on the N.Y.S.E. have been in declining trends since October, 1966. The break also sets up a huge vacuum under the Dow Industrials, since a confirmation of the new lows by the A-D Ratio would require a collapse in the Dow below its 1966 low of 744.32. The downward pressure is heightened by the fact that new lows are current in the D-J Rail A Average and 40-Bond Average. On June 9 the D-J Utility Average joined the parade by breaking to a new 1969 low as well.



As stated before, all eyes are now on the D-J Industrial Average. It's a primary bear market and

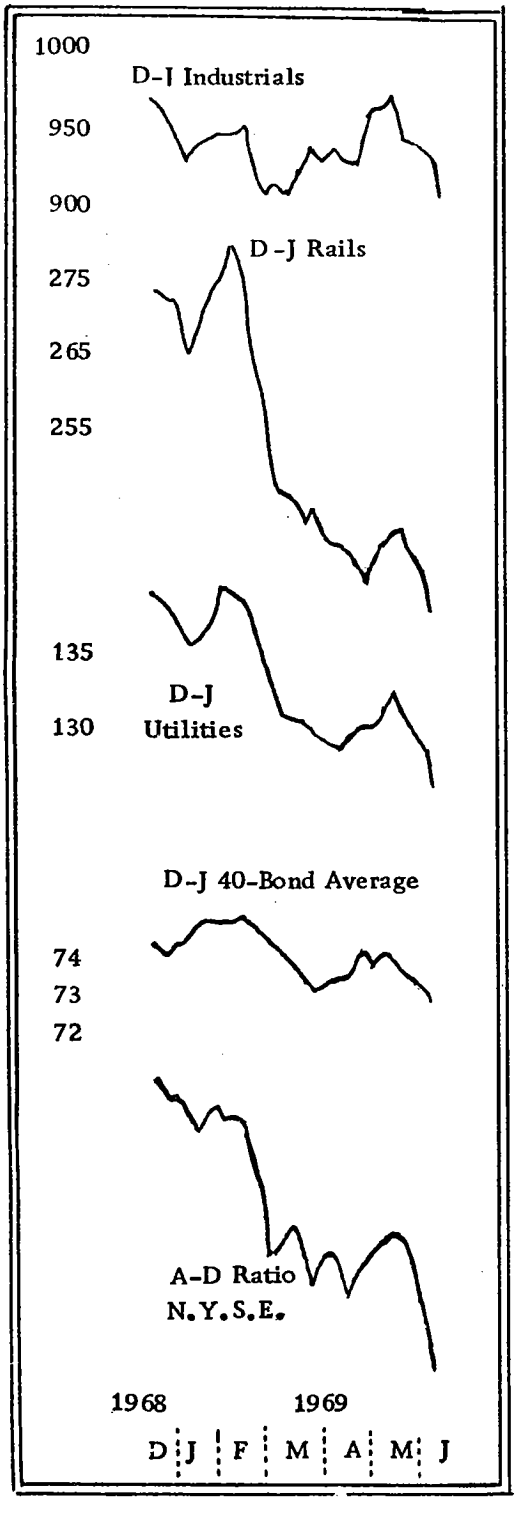
most of the leading indices are through their 1969 lows. Robert Rhea wrote that when one Average makes a penetration in the primary direction, in the vast majority of cases the other Average confirms. Thus, it is up to the D-J Industrials to follow or resist as 1969 moves on. The Dow is once again the "Big Gun" of Wall Street. (Chart courtesy of Traders Research, 101 Cherry St., Alton, Ill. 62002).

1969 SCOREBOARD: In the late 1920's alot of people spent alot of time doing what was known as "making whoopee." During the early 1930's after everybody had finished that activity, a parlor game was brought out. It was called "Mental Whoopee." The safer "fantasy version" of the 1928-29 activity gained much popularity during the '30's.

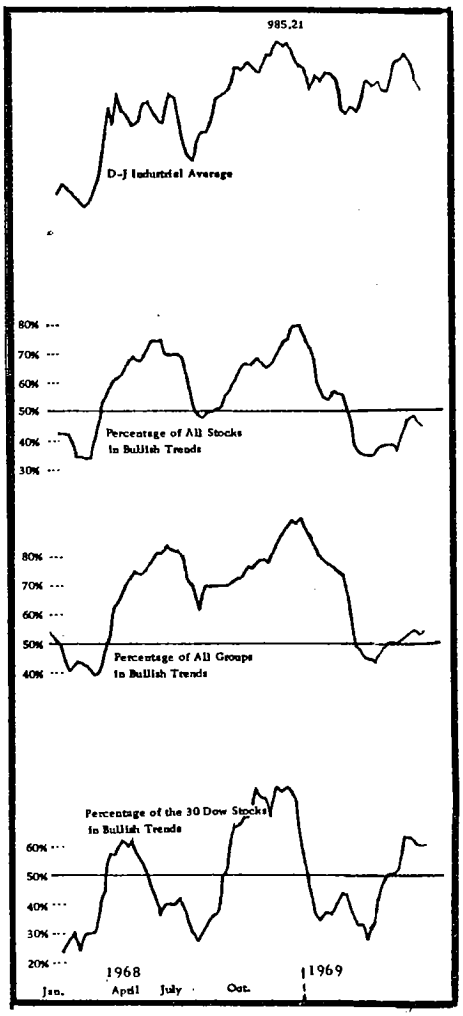
People are still making whoopee on Wall Street today. For instance, on June 4 old Standard Oil of Ohio jumped 25 points in a single session to 95¼. The rest of the market was down, but the cowboys were playing whoopee with Standard of Ohio. Thus the excitement becomes more and more confined to a single issue or a single group. Over the past three weeks, in fact, taking the 20 most active stocks each week, 7 more have been down than up. That means that the majority of whoopee has been on the downside, but few people notice that.

I include a chart of the five major indices which I watch, and it is interesting to note what has been happening to these five indicators during 1969. On June 4, the same day that Standard of Ohio rocketed 25 points, the D-J Rail Average touched a new 1969 low, the A-D ratio touched its lowest point since 1967 and the 40-Bond Average recorded a low since 1934. A few days later the Utility Average confirmed by sinking to a low for the year, and only the Dow Industrials still remained above their 1969 low of 899.80.

With four of my five indicators at new lows, it was obvious that all was not well on Wall Street. The fading Rail Average can be taken as a sign that speculation is waning, since the Rails are highly leveraged and highly speculative issues. The Bond and Utility Average are being squeezed by the record money rates, and regardless of the growth potential in Utilities they are always to some extent competitive with bonds.



The Industrial Average, being made up of thirty of the largest corporations in the nation, is faring far better than the A-D ratio. My guess here is that the thirty giants are much more able to withstand money pressure than are the great majority of N.Y.S.E. corporations as gauged by the A-D ratio. When the monetary pressures build up to the point where they really hurt the thirty Dow giants, the jig will be up and all indicators will be in gear on the downside.



SCOREBOARD II: Let's examine this market from another side. The second chart shows the weekly closing of the Dow Industrials together with three other indicators which I follow.

The first indicator is the percentage of all N.Y.S.E. stock in bullish trends. This index dropped from

79% during January to below the critical 50% level in late-February, to a low of 33% in March. Now the interesting part is that during the rally which took the Dow to a 1969 high of 968.85 in May, the all-stock bullish percentage never crossed back above the 50% level. With the recent weakness which began on May 14, the indicator has turned down again from below the 50% level. Prognosis: An extremely bearish performance.

The next index is the percentage of 88 stock groups on the N.Y.S.E. which are bullish. This is a tell-tale index because it hides possible manipulation. For instance, if DuPont and Allied Chemical look good, the Dow Industrials and many other Averages are boosted. But the whole chemical group may not be acting very well, and in fact could conceivably still be bearish. Thus, the performance of the whole group is probably more important than is the performance of one or two outstanding issues in the group. If the whole group is bullish, it registers on this index. The bullish group-percentage turned bearish at below the critical 50% level during March, it rose slightly above 50% during the recent rally into May. Last week this index was at 54% bullish.

The bullish percentage of the 30 Dow Industrials is a more sensitive index. It tends to move faster and further than the other indexes because of the volatility of the Dow stocks. This index gave an early signal in January when it dove below 50%. The index got down to a low of 27% on March 19. From there it rallied to a peak of 63% on May 7. Last week it was at 60%.

WHO'S LISTENING: The biggest hit with Washington economists and monetary planners these days is asperin. Take the latest figures on the leading indicators. In March, 1969, a mere 38% of the leading indicators were expanding, and this gave hope that inflation and the boom were at least slowing down. Now come the latest figures, the April figures. During April 83% of the leading indicators were expanding, and if the tightest money in history was having any effect, nobody knew it yet.

Leading economists were predicting some possible easing of business by late-summer, but it was the Federal Reserve Board which was getting the pressure. According to Chairman Martin, the Board would "continue those policies as long as needed to ensure that a resurgence of demand and upward cost and price pressure does not recur to plague us again." Pierre Rinfret, a leading economist, openly stated that "gradualism won't work," and he believes that a 5% rate of unemployment (which would practically amount to a recession these days) would be necessary to halt inflation. Eliot Janeway believes that money rates will get tighter than ever, the stock market can go lower, but that business is going to continue to expand and that inflation is going to continue to rise. In his own words, Mr. Janeway suggests that "....spectacle of boom-tide activity and full employment continuing during a credit panic." Incidentally, add Mr. Janeway (and my old friend Irving Weiss of Capital Advisors, Inc.) to last week's tiny list of analysts who have been bearish on the market in the primary sense over the past few years. As a matter of fact, as far as money conditions are concerned, Janeway and Weiss are still the most bearish analysts around.

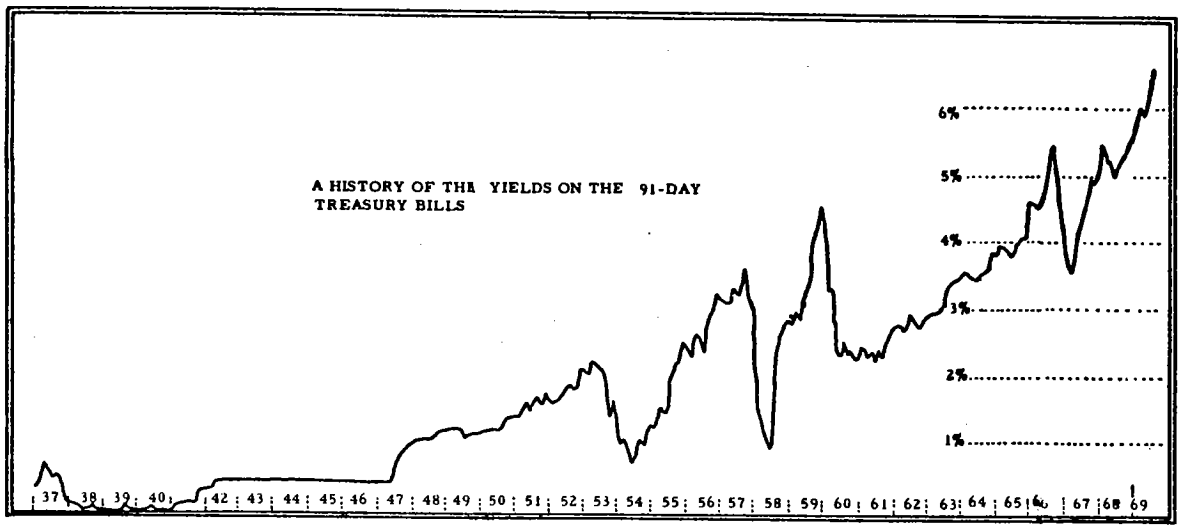
I'm no economist, and I'm no crystal ball gazer. However, I do agree with Janeway regarding the probability of a credit-panic during the weeks and months ahead. I also agree with him that a credit-crisis could be accompanied by a collapsing stock market. However, I am not in agreement with Janeway that business could withstand such a twin blow.

Perhaps where Mr. Janeway and I disagree is the extent of a possible stock market smash brought on by a credit panic. Such a panic would take place within the framework of an aging bear market, and I feel that the resultant Wall Street smash would be loud and clear, perhaps much louder than anything Mr. Janeway is considering. If so, I would also guess that business psychology would be very adversely affected, although I admit that it would have to be a stock market collapse of greater proportions than anything most bears now visualize.

It is the unexpected which shakes confidence, and I know that most analysts are now willing to concede a Dow break in the face of a credit crisis down to say 900 or even 850 or 820. But what about a wide-open smash of major proportions, say a smash which takes the Dow well below the 700 level. Such an event, in my opinion, would mean that all bets were off regarding business. The effect would be heightened if the decline was of the persistent, deadly variety such as those of 1930 or 1931.

At any rate, I do think that it will be up to the market to "make" psychology during the months ahead. And it is psychology which will make or break business during 1969 and 1970. It is well to remember that the market occasionally does something totally unexpected. And I feel that nothing but an unexpectedly severe and extended bear movement during 1969 here would be capable of sending this economy and the prevailing bullish psychology down the road to deflation and depression.

MORE OF THE SAME: On Friday, June 6, the brokerage loan rate rose to 8.5%. The following Monday (June 9) the prime rate at leading banks got in line by rising to a record 8.5%. Evidently discounting the new fantastic round of interest rate boosts, the Municipal Bond yields rose from a record 5.60 to last week's new record 5.74% (see chart page 5). The banks are increasingly strapped for cash, and the whole area of bank loans is running with express speed into what can be likened



to a cement wall of unavailability at any price. Many bonds broke last week to historic lows and many authorities proclaimed that we were "near the bottom" Maybe so, but there is no credit crisis yet, and most major reversals in the bond market (from down to up) occur amid a credit crisis.

I have made so bold as to include a history of yields on the 91-day Treasury bills. Nobody wants to look at this sad sight any more, but I thought I'd throw it in for posterity. Call it a history of the "U.S. Government spending more than it makes" if you want. It would seem that the astronauts aren't the only ones headed for the moon.

Interest on Treasury bills soared to its highest levels in history.

On $1.3 billion of 182-day bills auctioned Monday, the yield averaged 6.927%. On $1.7 billion of 91-day bills the average yield was 6.591%. The previous high for 182-day bills was 6.454%, set at the June 2 auction. The highest previous yield for the shorter-term bills was 6.278%, at the sale last Dec. 20.

It's more of the same with a few variations on the Vietnam front too. Mr. Nixon met with Mr. Thieu and announced that things are hopeful, and that he is bringing back a division of 25,000 men (probably non-combatant). This would be less than 5% of the American forces in Vietnam. I believe it was a token by President Nixon, a move which will allow him to say that "things are changing" in Vietnam. Personally, I don't see where bringing back a division constitutes any sort of fundamental change in the Vietnam situation, but maybe I'm missing a point or two.

Next day in a more significant development, President Thieu stated that anyone agitating for a coalition government in Saigon "will be severly punished." Any newspaper, he added, which uses the word "withdrawal" for what the U.S. troops are doing will be punished severely. U.S. troops are being "replaced," he stated, not withdrawn. I never cared for governments that tell men what words to use.

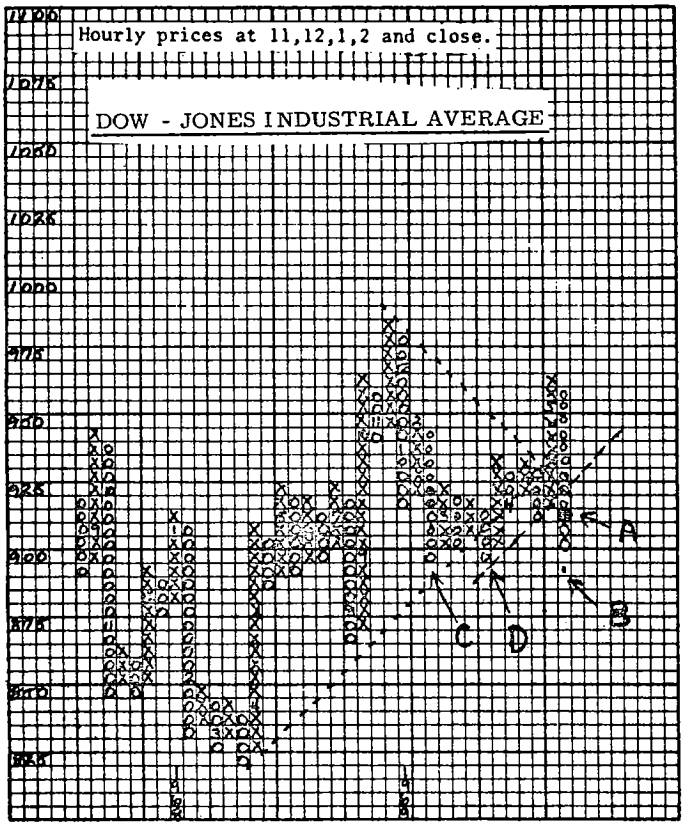
MONEY ON WALL STREET: The street is excited about the brokerage house of Donaldson, Lufkin & Jenrette and its plans to go public. The Street is absolutely agog about the DLJ prospectus, which goes into unusual detail regarding a Wall Street House. A second printing of the new prospectus is already in the hopper.

DL & J started in business 10 years ago. It was started by three Harvard Business School graduates, all under 30, with a capital of half a million. Based on a prospective public offering of its stock at $30 per share, the company will be worth $210 million. The prospectus shows that the company has been running with a pre-tax profit margin of roughly 50% of gross revenues. Revenues have jumped from $3.5 million five years ago to around $22 million today.

DLJ now manages over $600 million in accounts, 78% of which are institutional accounts. And how about remunerations? Last year the three founders averaged $192 thousand apiece in salaries and bonuses. The 36 directors of DLJ averaged $52 thousand each.

HOUSES: You may have to be as rich as the three gentlemen referred to above to buy a house at current prevailing interest rates. Here's what it's like in California at the Savings & Loan mortgage windows. Figure a mortgage rate of around 9 to 9.25%, plus a service charge which will average 1 to 2% plus a further service charge of around $100 to cover cost of placing the mortgage on the books.

POINT & FIGURE: The accompanying chart of the Dow is an up-to-date point and figure graph (from Chartcraft, Larchmont, N.Y.). Point & Figure (P.& F.) has the advantage of compression in time, and it has the advantage of providing (right or wrong) definite bull and bear signals. This particular chart is known as a 5-point, 15-point reversal chart. That means that each box on the chart equals 5 points on the Dow Industrial Average, and that only reversals of 15 points or more appear on the chart.



The "O's" on the chart indicate declines, the "X's" indicate rallies. If the Dow rallies from 900 to 914, then declines to 900 again this move will not appear on the chart. If the Dow rallies from 900 to 915, then back to 900 this move will appear on the chart. In other words only reversal of 15 points or more show on this chart.

The last vertical row of O's on the chart represents the current Dow Industrial decline which began from the May 14 high of 968.85. At the black square (marked A) on the chart the Dow gave a bearish signal by breaking below the preceding row of X's. At the same time, the Dow broke below the rising or"support" trendline which is drawn on the chart, and this too was a bearish development.

A "double bottom" appears at the 900 level, at the decline bottoms marked C and D on the chart. If the current retreat carries the Dow Industrials to 895 or below (the 895 square is identified by the letter B on the chart), the Dow will have rendered a very bearish P & F signal. If the Dow goes to 895 it will mean that it has broken the 900 level after touching it on three successive occassions (at C, at D and at the space above B). This is known as breaking a "tripel bottom" and it is a very bearish signal. Therefore, as I interpret P & F, any touching of the 895.00 level on hourly prices recorded at 11 A.M., 12 P.M., 1 P.M., 2 P.M. or the close will constitute a danger signal to be reckoned with.

LATE NOTES: (Written Thursday morning, June 12). Yesterday's closing brought Industrials within 5 points of their 1969 low of 899.80. There were 1600 issues traded on that day, and of these 1,112 declined, producing a whopping 378 new lows for the year. This means 23% of all issues traded on June 11 were at 1969 lows. The reason for the huge expansion in new lows is that the A-D ratio is now below its 1966 bottom, and this technical "crunch" has put hundreds of issues in jeopardy.

The market has produced 600 or more declines (referring to daily advance-declines) on 17 out of the past 18 trading days. This is phenomenal weakness, and on all records since 1949, this suggests that Wall Street is approaching the "oversold" state. A nearby penetration of 899.80 would produce an even more oversold state, and many analysts are now calling attention to the idea that the market should rally. It should indeed. But this is a primary bear market, and "should" is always a dangerous word during bear markets. We're on the sidelines, so let's let the market tell its own story, without our daily predictions. If this slide turns into a major primary bear market collapse, all "shoulds" are off, and Wall Street will enter some more fantastic tabulations into the record books. It's as simple, and possibly as ominous, as that.